

In The Know...

October 2009 Newsletter

Inside this issue:

The Affordability Question	1
'The 6 Year Rule'	1
Cash Flow.....	2
Quote of the Month	2

Property Comment

The stimulus packages for first home buyers (Boost and some State Bonuses) are now on the decline and as from 1 Jan 10, we will be back to only the \$7,000 Federal Grant in VIC.

Most people will agree it has done its job of getting more home buyers into the market and the follow on effect will be a mini-construction boom, once the land titles are registered and the new homes are under construction.

Couple this with record low interest rates and its only natural that a spike in sales and demand would lead to price value growth in property. (I've been saying this all year).

Given the recent Auction clearance rates, it appears the

Tax

In very basic terms, under the current tax laws your Principal Place of Residence is exempt from Capital Gains Tax, if its owned by an individual or individuals.

Lets say that your work takes you to another city and you are debating to sell or rent your property.

You opt to hold onto it, with

The Affordability Question

investor and owner occupier players are both in the game at the moment.

With interest rates looking to move north in the not too distant future, the affordability word will start to come back into the press.

Sure its easy to afford repayments when interest rates are at 5% on your \$400,000 mortgage, but its when rates get to 7% & 8%, you start to see the dangers in some of the property values for properties located in the mortgage belt.

The folk in these locations are traditionally lower income earners as they are younger and less experienced in the workforce.

It will be the combination of resolve and resilience of the

localised masses in each of these mortgage hotspots that will test the market value of their properties in the short to medium term.

Their only ray of light will be the speed, or lack of it (hopefully), in which interest rates execrate to these longer term averages.

For me, this market represents too much risk.

Give me a localised market with professionally educated and qualified locals, stable employment and strong prospects for wage increases and values should hold and grow over the longer term.

Ben Kingsley
Founder Empower Wealth.

'The 6 year rule'.....

time away from the property any capital growth in the property is capital gains tax free within this 6 year period

a view of one day return back to it to live.

During the time away from the property any capital growth in the property is capital gains tax free within this 6 year period, whilst you are also able to re-

ceive rental income and claim an interest as a tax deduction, whilst the property is available for rent.

The '6 year rule' is something you should discuss in detail with your accountant so you understand the rules associated with its determination and your eligibility, before making any financial decision on your property.

Market Measures: Auction Clearance Rates:

Melbourne:

Aug 08—61%
Mar 09—78%
Apr 09—81%
May 09—81%
Jun 09—86%
July 09—85%
Aug 09—86%

Sydney:

Aug 08—47%
Mar 09—61%
Apr 09—63%
May 09—66%
Jun 09—70%
July 09—71%
Aug 09—75%

Brisbane:

Aug 08—28%
Mar 09—36%
Apr 09—37%
May 09—47%
Jun 09—44%
July 09—44%
Aug 09—49%

Source: Home Price Guide

Finance

Cash Flow You Didn't Know you Had....

The management of cash flow and the provisioning for future cash flow is critical in helping to build a long term wealth base.

There is no benefit in buying real estate and not being able to hold onto it for a traditional full value cycle, because the entry, holding and exit fees are usually high, so you are reliant on the value to compound significantly over this period to deliver a justifiable investment return for your investment risk.

(I.e. a traditional real estate cycle is between 7 to 10 years, whereby the value over this period has usually doubled in value).

The ability to access more of your own income relies on the ability to restructure your finances, namely any mortgage or other personal finance (Debt).

Take for example a couple who have only 8 years remaining on their 25 year home loan and their current repayments are \$1183 per month (Principal and Interest) on a \$90,000 residual loan balance against their \$450,000 property.

They are keen to invest in a property, but their current budget only shows a surplus of a \$150 per month, which they are using to pay down their mortgage (because that's what their parents have always told them to do).

They investigated the cost of holding down an investment property of the same value and worked out it would

cost them around \$600 per month in out of pocket costs, once the rental income was weighed up against the interest on the mortgage and the up-keep and maintenance of the property. So they believe they are not in a position to afford this option now, right? Maybe not...

'the different in wealth could be as much as \$2,165,000'

Before this couple completely close the door on this idea, they should talk to one of the Finance Specialists at Empower Wealth.

After reviewing their situation, they inform this couple they do actually have an alternative option. They could reset/restructure their home loan to a longer term. This would result in a new monthly repayment of \$540 (P&I) per month over 30 years.

This decision would release \$643 of their own funds that they have been allocating to their mortgage repayments. The benefit of this move can be two fold. Firstly, it doesn't effect their existing lifestyle or commitments because they were allocating this money already.

Secondly, and most importantly, it has the ability to accelerate their wealth base considerably over the next 20 years or more as the value of their property grows over time.

By releasing this cash flow they now have enough income to cover the cost of holding this investment property for the long term, and as the value grows so does the rental income, which results in less reliance on their own surplus cash going forward.

Lets fast forward and take a look at the outcomes of both options in 20 years from now.

Option 1—Pay off the Mortgage. By choosing not to invest in a new investment property this couple was able to pay-off their mortgage within 6 years. In 20 years if the house appreciated at 7% p/a the value of the property is \$1,740,000.

Option 2—Buy the new investment property (Value \$450,000). In 20 years from now their debt level would be as much as \$930,000, but here's the silver lining—the combined value of the two properties is \$4,830,000.

So the decision to buy the investment property has been a gold mine as the difference in wealth could be as much as \$2,165,000.

The message here is simple. You might have access to surplus cash without changing your lifestyle yet what you do with this cash could truly change your lifestyle forever!

Ben Kingsley
Founder Empower Wealth.

Empower
WEALTH
A WEALTH OF KNOWLEDGE

68 Munster Terrace

North Melbourne VIC 3051

T: 03 9326 8900

www.empowerwealth.com.au

Mortgage Broking Services

Investment Finance Strategists

Property Acquisition Education

Quote of the Month:

"Wealth through Property is mastering your ABC's: Asset Selection, Borrowings, Cash Management"

Ben Kingsley
Founding Director
Empower Wealth

Upcoming Educational Workshops:

**Introduction to Property Investing—
Wednesday 21st October**

**eSearch Superior Property
Tuesday 27th October**

**Money, Investing and Finance
Wednesday 25th November**

For more information and to Book—Visit:

www.empowerwealth.com.au